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Viewing cable 06BRATISLAVA613, TRANSPETROL: SLOVAKIA FEELS PRESSURE FROM ITS

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Reference ID	Created	Released	Classification	Origin
06BRATISLAVA613	2006-07-28 06:00	2011-08-30 01:44	CONFIDENTIAL	Embassy Bratislava

Appears in these articles:

<http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html>

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C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000613

SIPDIS

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E.O. 12958: DECL: 07/27/2016
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)
SUBJECT: TRANSPETROL: SLOVAKIA FEELS PRESSURE FROM ITS
RUSSIAN BROTHER

Classified By: Ambassador Rodolphe Vallee for reasons 1.4 (b) and (d)

¶1. (C) Summary. The new Slovak government feels under increasing pressure to strike a deal with a Russian firm on Transpetrol before Yukos International initiates bankruptcy proceedings, now scheduled to begin on August 10. On July 25, the same day that Yukos creditors decided to commence bankruptcy proceedings, the Slovak Ministers of Economy and Foreign Affairs traveled to Russia to negotiate with Yukos, Russneft and Gazprom. The Minister of Economy met with Ambassador Vallee on July 27, and gave the impression that he believed he held a weak hand, and would have to give up his plans to buy back Yukos shares in order to achieve other objectives. On further review, we believe that the Minister is giving the Russian position too much credit, and may be on the verge of making an unnecessary mistake. End Summary.

The Yukos Bankruptcy: What Does It Mean?

¶2. (SBU) On July 25 in Moscow, Yukos International creditors rejected the company's proposed recovery plan since it could not repay its debts in the time allotted by law. In the process, the Russian court valued the company's after-tax assets at \$15.4 billion, less than half of what Yukos' legal team had claimed. Steve Theede, CEO of Yukos, resigned from his post on July 20, saying that the process would be rigged by those intent on carving up the pieces of Yukos. (Note: Theede's resignation is not official until August 1 -- it is unclear if he is still involved in company management during his last few days on the job.) The decision clears the way for the Russian government to commence liquidation of Yukos assets, setting up the possibility of a firesale auction of Yukos assets to well-connected Russian oil interests. Liquidation proceedings, originally scheduled for August 1, were postponed (on July 27) by Russian courts until August 10.

¶3. (SBU) It is doubtful, however, that any Russian court decision concerning Yukos International is legally binding for Amsterdam-based Yukos Finance, which actually holds the 49 percent share in Transpetrol. According to legal analysts with close knowledge of the case, attached liens on Transpetrol shares and any disposition of Yukos Finance and its subsidiary Yukos International would need the approval of the Dutch court. Any decision taken by Russian courts on August 10 would be subject to further review by Dutch courts later this year. Experienced energy analysts suggest that Russian firms are trying to pressure Slovakia to reach a deal before August 10 because the Russians are worried about what the Dutch court will decide, and want to play on the new Slovak government's fears that bankruptcy proceedings could leave them with nothing. (see paragraph 9)

Off to Moscow, Enter Gazprom

¶4. (C) Also on July 25, Minister of Economy Lubomir Jahnatek and Minister of Foreign Affairs Jan Kubis traveled to Moscow to meet with Yukos leadership and various Russian businessmen and government officials. These included separate meetings with Viktor Geraschenko, Yukos Chairman of the Board; Mikhail Gutseriyev, President of Russneft; representatives from Gazprom; and Sergei Narishkin, Minister of Economic Development. Prior to these meetings, Jahnatek reportedly sent letters to all stating that any prospective partner needed to agree to the following four conditions and show the financial and technical capacity to make them possible:

- * Slovakia must re-acquire management rights to Transpetrol (Slovakia does not currently own management rights even though it holds a 51 percent share);
- * The existing pipeline must be extended to Schwechat refinery in Austria;
- * The pipeline must be made available for Odessa-Brody-Bratislava usage;
- * Pipeline capacity must be increased from 10.7 to 16 million tons per year.

Jahnatek left Moscow the following morning without striking

any deal.

15. (SBU) Meanwhile Yukos and Gazprom began serious negotiations. On July 26, Yukos International representatives in London announced that they had rejected an offer from Gazprom to buy a significant percentage of the company's holdings, most notably Yukos' shares in Gazprom Neft and Arcticgas, but also Yukos' 49% stake in Transpetrol.

Wire reports on July 27 indicate, however, that the two sides are close to reaching a deal, and some sources suggest they may have already done so. According to one Russian newspaper, Gazprom valued Transpetrol at \$105 million; another Russian newspaper said between \$80 and \$100 million. By comparison, in February Russneft had agreed to purchase Yukos' shares for \$103 million before then-Minister of Economy Jirko Malcharek nullified the transaction.

Perspectives from Slovak Government: Kondrot

16. (C) For additional perspective, Emboff met with Maros Kondrot, Chairman of Economic Committee in Parliament, on July 26. Kondrot, like Jahnatek, is an ex-HZDS member who recently switched to SMER; the two are tied to many of the same financial backers and are quite close. Kondrot believes that Slovakia must buy back its Transpetrol shares from Yukos, and sees it as an ominous sign that Jahnatek had traveled to Russia to meet not only with Yukos, but also with Russneft and Gazprom. He said that Jahnatek was originally willing to go forward with the buyback plan negotiated by outgoing Minister Malcharek, but, after his personal lawyer had reviewed the documents, decided against this option and persuaded Fico to seek another solution. Kondrot had not seen the exact details of the agreement but was told that the financial terms of the buy-back negotiated through Credit Suisse First Boston were unclear, suggesting that Slovakia would have only gained a back a fraction of the 49 percent share, with the rest going to private interests. Based on Malcharek's close ties with Penta and Credit Suisse First Boston's long history with the company, it appears that Penta would have been the primary beneficiary. Kondrot is presently in Ukraine, representing the Slovak government on the Transpetrol issue, where he is meeting with EU representatives.

Perspectives from Slovak Government: Jahnatek

17. (C) On the afternoon of July 27, Ambassador Vallee met with the new Minister of Economy, Mr. Jahnatek, for the first time. Jahnatek opened by listing the four conditions listed in paragraph 4. He seemed to be rather frazzled by the pressure of the situation, and convinced he had only a three-day timeframe to strike a deal before August 1 (now extended to August 10) in order to attain some of the conditions he listed. The Minister seemed to believe that we were meeting with him primarily to make the case for the US investor M.E. Zukerman Investments (MEZI), which had written him on July 13 to express interest in purchasing the 49 share in Transpetrol. Jahnatek told us that he had received investment counseling from a London-based firm on the capabilities of MEZI, and had decided that the company did have not a financial position that made it viable to undertake the pipeline investments that the GOS requires.

18. (C) At one point, after relaying USG goals of transparency and open access, Ambassador Vallee asked him why Slovakia couldn't just buy back the shares directly rather than work out a complicated deal with Credit Suisse or Gazprom. Jahnatek gave a resigned look and said, "It is a complicated situation. Our Russian brother is sitting on the source." He spoke of the veto power that the Ministry of Economy holds on any Transpetrol deal, and lamented that this authority runs out on April 1, 2007. He also spoke of Slovakia's nuclear fuel and gas contracts with Gazprom that run out in 2008, and said that he didn't want to take any decisions that "maybe in six months would seem stupid." In short, Jahnatek seemed resigned to the fact that he had a bad hand and that

some sort of deal with Gazprom was inevitable and needed to be reached before liquidation procedures begin.

Another View: Karol Hirman -- Why This Doesn't Make Sense

¶9. (C) We subsequently contacted leading Slovak energy expert Karol Hirman for perspective. He believed that a lot of Jahnatek's reasoning was flimsy at best. Hirman noted that Russian firms have no incentive to give management rights back to Transpetrol, so the GOS is highly unlikely to receive such a concession from Gazprom. Secondly, the Schwechat pipeline connection requires the consent of Schwechat, which is not yet convinced of the economic wisdom of such a project. Thirdly, unlike the situation in Ukraine, Slovakia holds gas and nuclear fuel contracts at world market rates, so Slovakia has little to gain by forfeiting Transpetrol shares to Gazprom in order to get a future deal on gas contracts. Also, Hirman agreed with our views on the strong position of the Dutch courts, and added that, according to the terms of the 2002 Transpetrol-Yukos transaction, if Yukos shares are turned over to a third party in a bankruptcy procedure without approval by the Slovak government, then management control of Transpetrol must legally revert to Slovakia. Hirman said that Jahnatek was panicking due to inexperience, and believed that the Russians had done a number on him with their pressure tactics.

Next Step

¶10. (C) In a scheduled meeting tomorrow morning with Foreign Minister Kubis, Emboff will press the point that Slovakia should not rush into a hasty deal with Russian firms on Transpetrol, and that a further review of options is needed.
VALLEE